

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4690-02
Bill No.: SB 899
Subject: Education, Higher; Education, Elementary and Secondary; Boards, Commissions, Committees, Councils; Elementary and Secondary Education Department; Higher Education Department
Type: Original
Date: March 29, 2010

Bill Summary: Establishes the Missouri Promise Program to provide financial awards to students pursuing higher education at certain institutions.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(\$8,655,410)	(\$27,586,886)	(\$37,332,688)
Total Estimated Net Effect on General Revenue Fund	(\$8,655,410)	(\$27,586,886)	(\$37,332,688)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 14 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 FTE

☒ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Missouri Department of Higher Education (MDHE)** assume Section 173.1174 of this bill would create Missouri Promise, a new financial aid program that would be administered by the MDHE.

MDHE would be required to perform new duties including:

- Determining which institutions constitute approved public institutions, approved public universities and eligible approved private institutions as defined 173.115.1(1)(2) & (6);
- Determining which associate's degrees meet the requirements of 173.1175.1(3);
- Determining what "average university tuition" is, as defined 173.1175.1(4);
- Receiving data about students' expected family contributions, as defined 173.1175.1(7);
- Determining whether students are "full-time students," as defined by 173.1175.1(8);
- Determining the amount of each institution's "tuition" as that term is defined 173.1175.1(11);
- Promulgating rules for the implementation of the Missouri Promise program 173.1178.1;
- Prescribing the form, time, and method of filing applications and supervising the processing thereof 173.1178.1;
- Determining eligibility criteria for Missouri Promise awards 173.1178.2;
- Establishing procedures whereby certain students can seek deferrals of Missouri Promise awards 173.1178.2;
- Ensuring that no student receives a Missouri Promise award more than four years after he or she graduates from high school, unless that student has been granted a deferral 173.1178.2;
- Selecting qualified applicants to receive awards, making awards, and determining the method and manner of payments 173.1178.3;
- Determining eligibility for renewal awards 173.1178.3;
- Determining the amount of a student's renewal award 173.1178.3;
- Ensuring that all recipients of Missouri Promise awards meet the eligibility criteria set forth in 173.1181;
- Determining the amount of students' awards 173.1184;
- Distributing funds according to the priority set forth in 173.1184;
- Ensuring that students who transfer from one institution to another continue to receive Missouri Promise awards and making any necessary adjustments in award amounts, as provided in 173.1187;
- Handling refunds as required by 173.1190.

In addition to the requirements specifically identified in the bill, the department would have to

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ASSUMPTION (continued)

take on a number of responsibilities to successfully administer the program:

- Provide information to financial aid officers, high school guidance counselors, parents, students, and other groups about the new program and the changes to the A+ program;
- Prepare annual budget requests for the program;
- Reprogram FAMOUS, the software the MDHE uses to administer financial aid programs.

The program would not reach its full fiscal impact until FY 2014, the first fiscal year that the program would include students from all public high schools at all academic levels. During FY 14, the MDHE estimates that the total cumulative additional cost of the scholarship program would be \$47,780,570.

Scholarship costs

MDHE assume the full details of assumptions about the costs of this scholarship are set forth in the spreadsheets provided to Oversight. Key assumptions listed on those spreadsheets include:

- Students will enter the program as follows:

	FY 2011	FY 2012	FY 2012	FY 2013
Freshman	Students from any public high school	Students from any public high school	Students from any public high school	Students from any public high school
Sophomore	students from A+ schools	Students from any public high school	Students from any public high school	Students from any public high school
Junior	students from A+ schools	students from A+ schools	Students from any public high school	Students from any public high school
Senior	None	students from A+ schools	students from A+ schools	Students from any public high school

- Level 1 and Level 2 of Missouri Promise will be funded.
- This bill would allow qualified students from all public high schools in Missouri to participate in the Missouri Promise program.
- Students from all public high schools will utilize Levels 1 and 2 of the Missouri Promise

ASSUMPTION (continued)

program at the same rate that students from A+ high schools have utilized the A+ program.

- Approximately 75% of students who get associate's degrees using A+ or Missouri Promise will go on to a four-year institution using Level 2 Missouri Promise awards.
- The group of students who could potentially participate in Missouri Promise will grow by 4% each year.
- Tuition will increase at 3.7% each year.
- Missouri Promise will be the payer of last resort - after Pell Grants and Access Missouri.

Administrative costs

The MDHE also assumes that it will need an additional staff person to administer this program in addition to the FTE that would be transferred from DESE. The rationale for this assumption is that Missouri Promise will be significantly more labor-intensive to administer than the A+ program. In A+, staff at high schools performed some of the duties required to administer the program. MDHE staff will have to work with the high schools that do not have A+ coordinators to ensure that students from those schools are knowledgeable about the program and its requirements. MDHE staff will also have to promote and support Level 2 of the program. These additional duties above what is currently required for A+ will represent a significant undertaking for the MDHE, which is already working at capacity in its grants and scholarships program. The MDHE assumes that the department would hire a program specialist to perform the duties associated with the significantly expanded program, and that the program specialist's starting salary would be at the low end of the UPC range.

The MDHE assumes that it would need to reprogram FAMOUS, the software the department uses to administer financial aid programs. The MDHE assumes that the cost of this would be approximately \$175,000.

Oversight assumes MDHE's estimate of expense and equipment cost for the new FTE could be overstated. If MDHE is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2011 could be reduced by roughly \$2,277.

ASSUMPTION (continued)

Estimated Cost of Missouri Promise and A+ Expansion (Expansion to all public schools, EFC cap for years 3 & 4)

	FY 2011	FY 2012	FY 2013	FY 14
Current A+ Program (Yr 1,2)*	20,311,384	22,954,661	24,870,266	26,927,627
Plus expansion of A+ for other public school students (Yr 1,2)**	4,779,149	10,802,193	11,703,654	12,671,825
Cost of A+ Program	25,090,533	33,756,854	36,573,920	39,599,452
MO Promise Program for A+ students (Yr 3,4)***	8,663,192	19,096,784	21,067,147	22,776,222
Plus expansion for other public school students (Yr 3,4)****	0	0	4,956,976	10,718,222
Cost of MO Promise	8,663,192	19,096,784	26,024,123	33,494,444
Total Cost	33,753,725	52,853,638	62,598,043	73,093,896
Less Core A+ Budget	(25,313,326)	(25,313,326)	(25,313,326)	(25,313,326)
Additional cost with A+ expansion	8,440,399	19,099,914	9,744,405	10,495,853
Students Served	15,739	21,183	23,197	25,251

Current number of A+ recipients - 10,186
 12,000 EFT equates to a \$72,000 average Adjusted Gross Income

*FY 2011 is estimated current cost based on Pell and Access funded first. Out years are inflated by 4% annual enrollment growth and 3.7% annual tuition increases.

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ASSUMPTION (continued)

**Based on 68% of students currently in A+ schools; assumes equivalent behavior. Expansion applied to year 1 in FY 2011 years 1-2 in FY 2012.

***FY 2011 includes only year 3; FY 2012 includes years 3 and 4. Enrollment is assumed at 75% of A+ year 2 students with out years inflated by 3% annual tuition increases.

****Based on 68% of students currently in A+ schools; assumes equivalent behavior. Expansion applied to year 3 in FY 13 and years 3-4 in FY 14.

Officials at the **Department of Elementary and Secondary Education** assume the proposal appears to establish the "Missouri Promise Program" which shall be the successor to the A+ scholarship program. Section 160.545 appears to leave, within DESE, the duties of evaluation of the A+ grant program. It is unclear how the department will evaluate the effectiveness of a program which is under the authority of another agency.

The FY 2011 Governor's recommendations include a transfer of A+ funding (\$25,336,524 and 1.0 FTE) from DESE's budget to the Coordinating Board for Higher Education. DESE defers to the Coordinating Board regarding the fiscal impact of the Missouri Promise Program.

Officials at the **Missouri Southern State University** and the **University of Central Missouri** assume that there is no fiscal impact from this proposal.

Officials at the **St. Louis Community College** and the **Linn State Technical College** assume an unknown impact.

Officials at the **Missouri State University** assume an unknown increase in revenue due to the number of students enrolled at the University.

Officials at the **Metropolitan Community College** assume a loss of approximately 50% of its current A+ students. This would be a loss of \$1.8 to \$1.9 million.

Officials at the **Missouri Western State University** assume this will create a huge negative impact. This would cause 4 year institutions to become primarily two year completion programs. There would be no capacity at CC to handle the additional students. So more money would be spent to add buildings when we already have capacity at four year institutions.

ASSUMPTION (continued)

Officials at the **University of Missouri** assume there is considerable concern about the potential fiscal impact of this bill on the University of Missouri System. Because of the number of variables involved, the exact impact is not possible to quantify at this time. However, the following concerns would factor into the fiscal impact on the University.

1. The additional financial incentive for students to start at two-year institutions has the potential to severely impact enrollment and create a grave loss of revenue for the University of Missouri. The program redirects students from 4-year institutions to 2-year institutions by encouraging freshmen students to enroll at a community college and obtain an Associates Degree prior to enrolling in a four-year public institution. Because their eligibility for the Missouri Promise funding at the 4-year college level is tied to their receiving it at the 2-year college level, the Missouri Promise program has the potential of siphoning off even more students from four-year schools than does the A+ program.
2. Access to the University could be enhanced by specifically directing resources to students with financial need. Since Level 1 of the Missouri Promise program is not linked to student need, the program's effectiveness at improving access to the University is diluted by providing funding to students regardless of whether or not they have financial need.
3. Since the Missouri Promise Program is tied to the Access Missouri scholarship pool, it has the potential to actually reduce the number of Access Missouri scholarships available to four-year students due to the additional number of community college students who would be eligible to draw down Access funds.
4. There is concern about the retention of students who enter the University through the Missouri Promise Program, due to the difference in GPA requirement for Level 2 eligibility and renewal. The cumulative GPA eligibility requirement for an in-coming Level 2 student is 2.5 but the renewal cumulative GPA at a four-year public is 3.0. Because the renewal requirement for level 2 is higher than the initial eligibility requirement, students who enter with a GPA under 3.0 will have to perform at a higher level at the university than they did at the community college. In addition, historical data indicates that it is common for students transferring from a community college to a university to experience a transfer shock in the first semester, and earn a lower GPA. For these two reasons, there will undoubtedly be students who enter the university with the Level 2 award who will lose it after the first semester, and some of these students may drop out of the university due to financial need. So even though some students in the Missouri Promise Program will enter the University with Level 2 funding, the risk of losing the funding is real for those with marginal GPAs.

ASSUMPTION (continued)

5. One of the factors for success in obtaining a bachelor's degree is having the right fit for the student. There is concern that the financial incentive to attend a two-year institution may misdirect students for which a four-year institution is a more suitable option. In addition, historical data tells us that the graduation rate is higher for first-time college students who begin at a four-year institution than for student who begin at a community college and subsequently transfer to a four-year school. Thus, since the Missouri Promise Program provides an incentive for student to start at a community college, it may have the unintended consequence of decreasing the number of students who graduate with a bachelor's degree.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
<u>Cost - Dept. of Higher Education</u>			
FAMOUS computer upgrades	(\$175,000)	\$0	\$0
<u>Cost - Dept. of Higher Education</u>			
Personal Services	(\$24,545)	(\$30,337)	(\$31,248)
Fringe Benefits	(\$12,871)	(\$15,909)	(\$16,386)
Equipment and Expenses	<u>(\$2,595)</u>	<u>(\$328)</u>	<u>(\$337)</u>
<u>Total Cost - Dept of Higher Education</u>	(\$40,011)	(\$46,574)	(\$47,971)
FTE Change - MDHE	(1 FTE)	(1 FTE)	(1 FTE)
<u>Cost - Dept of Higher Education</u>			
Increased scholarship money needed	<u>(\$8,440,399)</u>	<u>(\$27,540,312)</u>	<u>(\$37,284,717)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$8,655,410)</u>	<u>(\$27,586,886)</u>	<u>(\$37,332,688)</u>
Estimated Net FTE Effect on General Revenue	1 FTE	1 FTE	1 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This act establishes the Missouri Promise Program to provide financial awards to eligible students who attend certain institutions of higher education, as described in the act. The Coordinating Board for Higher Education will administer the program and may promulgate rules and regulations for the program's implementation, including the manner and method of payment of awards. The Board may also determine additional eligibility requirements, requirements for

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FISCAL DESCRIPTION (continued)

renewal awards, and criteria for the deferral of an award. (Sections 173.1174, 173.1175 and 173.1178)

The program makes Level 1 Missouri Promise Awards and Level 2 Missouri Promise Awards available to eligible students. A Level 1 Missouri Promise Award may be awarded to a student attending an approved community college, public vocational or technical school, or an eligible private institution, as described in the act. This type of award replaces the existing A+ Scholarship Program. A student attending a public community college, vocational or technical school may receive a Level 1 award in an amount up to the student's actual tuition. A student attending an eligible approved private institution may receive an award in an amount not to exceed the lesser of the student's actual tuition or the tuition charged by the community college in whose service area the private institution is located.

A Level 2 Missouri Promise Award may be awarded to a student who attends an approved public university while pursuing a four-year degree who has earned an Associate's Degree and has already received a Level 1 award or A+ Scholarship, as described in the act. The amount of a Level 2 award must not exceed the lesser of either the tuition at the institution the student is attending or the average university tuition amount, as described in the act.

All Missouri Promise Awards must be reduced by the amount of a student's Pell Grant awards or Access Missouri awards. All Missouri Promise Awards are subject to appropriation. If appropriated funds are insufficient to fund all awards, the Department of Higher Education must give priority to funding Level 1 awards over Level 2 Awards and may prorate both Level 1 and Level 2 awards if necessary. (Section 173.1184)

A Missouri Promise Award recipient may transfer from one approved institution to another without losing eligibility. The Coordinating Board must adjust the award amount if necessary. (Section 173.1187)

If an award recipient is entitled to a refund from his or her institution of attendance, any portion of the refund that is attributable to a Missouri Promise award must be paid to the Coordinating Board. (Section 173.1190)

ELIGIBILITY REQUIREMENTS FOR LEVEL 1 AND LEVEL 2 MISSOURI PROMISE AWARDS: To be eligible for a Level 1 or Level 2 Missouri Promise Award, an applicant must: be a citizen or permanent resident of the United States; be a Missouri resident who graduated from a Missouri public high school; is enrolled, or has been accepted for enrollment, as a full-time student in a postsecondary education program, as described in the act; is not enrolled in

FISCAL DESCRIPTION (continued)

and is not using the Missouri Promise award to pursue a degree in theology or divinity; has not been found guilty of or plead guilty to any criminal offense that would disqualify the applicant from receiving federal student aid during the time in which the applicant would receive a Missouri Promise award; and has attempted to secure all available state and federal postsecondary financial assistance that does not require repayment by submitting a FAFSA form by the Coordinating Board's deadline. (Section 173.1181)

ADDITIONAL REQUIREMENTS FOR AN INITIAL LEVEL 1 MISSOURI PROMISE AWARD: Additionally, an applicant must meet the following criteria for an initial Level 1 Missouri Promise Award: during high school, have achieved a 2.5 grade point average or higher on a 4.0 scale; have at least a 95% attendance rate for grades 9-12; have performed at least fifty hours of unpaid community service; maintained a record of good citizenship and avoided the unlawful use of drugs or alcohol; and be enrolled in a community college, public vocational or technical school, or approved private institution as a full-time student, as described in the act. (Section 173.1181)

REQUIREMENTS FOR A RENEWAL LEVEL 1 MISSOURI PROMISE AWARD: To receive a renewal Level 1 Missouri Promise Award, an applicant must remain continuously enrolled at a community college, public vocational or technical school, or approved private institution, as described in the act; have maintained a 2.5 GPA on a 4.0 scale while receiving a Missouri Promise Award or A+ Scholarship; and have received a Missouri Promise Award or A+ Scholarship during the prior academic year.

A student cannot receive a Level 1 Missouri Promise award or A+ Scholarship for more than six semesters. (Section 173.1181)

ADDITIONAL ELIGIBILITY REQUIREMENTS FOR AN INITIAL LEVEL 2 MISSOURI PROMISE AWARDS: An applicant may be eligible for an initial Level 2 Missouri Promise Award by meeting the following requirements: have received an associate's degree from a community college, public vocational or technical school, or eligible approved private institution, as described in the act, and has enrolled in an approved public university within nine months of completing the associate's degree; received a Level 1 Missouri Promise Award or an A+ Scholarship during each regular semester that he or she attended an approved institution, as described in the act, or would have received a Level 1 Missouri Promise Award but for the receipt of other state or federal postsecondary student financial assistance; the applicant has achieved a GPA of 2.5 on a 4.0 scale while in college; and the applicant has an expected family contribution of \$12,000 or less. (Section 173.1181)

FISCAL DESCRIPTION (continued)

ELIGIBILITY REQUIREMENTS FOR A RENEWAL LEVEL 2 MISSOURI PROMISE

AWARD: After receiving an initial Level 2 award, an applicant may receive a renewal Level 2 award if he or she achieves an overall 3.0 grade point average on a 4.0 scale while attending an approved public university, as described in the act.

A student cannot receive a Level 2 award for more than four semesters, unless the Coordinating Board grants the student a deferral and the student is enrolled in a baccalaureate program that requires a minimum of 124 credit hours to graduate. (Section 173.1181)

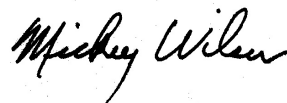
A+ SCHOOLS PROGRAM: This act repeals the reimbursement portion of the A+ Schools Program for the cost of tuition, books, and fees for students. (Section 160.545)

ACCESS MISSOURI: This act removes the requirement that an Access Missouri award be reduced by the amount of a student's A+ Schools reimbursement. (Section 173.1105)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Elementary and Secondary Education
Department of Higher Education
Office of the Secretary of State
Linn State Technical College
Metropolitan Community College
Missouri State University
Missouri Southern State University
Missouri Western State University
St. Louis Community College
University of Central Missouri
University of Missouri



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